

## Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 NEA-09 ISO-00 SAB-01 CIAE-00 DODE-00

PM-03 H-01 INR-07 L-02 NSAE-00 NSC-05 PA-01 PRS-01

SP-02 SS-15 USIA-06 FEA-01 ERDA-05 AID-05 CEA-01

CIEP-01 COME-00 FPC-01 INT-05 OMB-01 SAM-01 OES-03

STR-01 TRSE-00 FRB-03 /101 W  
----- 109396

R 200838Z FEB 75

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 2301

INFO AMEMBASSY ABU DHABI

AMEMBASSY BEIRUT

AMEMBASSY ODHA

AMEMBASSY JIDDA

AMEMBASSY LONDON

AMEMBASSY MANAMA

AMEMBASSY TEHRAN

USMISSION OECD PARIS

USMISSION EC BRUSSELS

AMCONSUL DHAHRAN

USINT BAGHDAD

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E.O. 11652: N/A

TAGS: ENRG, KU

SUBJECT: GOK CRUDE SALES; EXXON DEAL HITS SNAG

REF: (A) KUWAIT 0705 (B) KUWAIT 0460

1. OUR REPORT (REF A) THAT EXXON CRUDE DEAL CONCLUDED WAS  
PREMATURE. ON FEBRUARY 19 BAKER OF EXXON VISITED EMBASSY  
IN DEPRESSED SPIRITS TO REPORT HE HAD JUST RENEGED ON ORAL  
COMMITMENT GIVEN TO GOK UNDER TERMS DESCRIBED REFTELS. HE  
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WAS ACTING UNDER INSTRUCTIONS FROM EXXON HEADQUARTERS.

2. ACCORDING BAKER EXXON MANAGEMENT HAD DECIDED PROPOSED CREDIT TERMS (60 DAYS) NO LONGER ACCEPTABLE TO COMPANY SINCE ACCEPTANCE WOULD JEOPARDIZE MORE FAVORABLE AND MORE IMPORTANT CREDIT ARRANGEMENTS ELSEWHERE (PRESUMABLY SAUDI ARABIA). BAKER SAID HE HAD AUTHORITY ACCEPT 75-DAY CREDIT TERMS BUT GOK REFUSED CONSIDER EXTEND TERMS. ALTERNATIVELY BAKER HAD SUGGESTED GOK AGREE TO EXXON BEGINNING LIFTINGS OF 50,000 BPD MARCH 1 UNDER PREVIOUSLY AGREED TERMS WITH UNDERSTANDING THAT EXTENDED CREDIT WOULD BE AGREED TO PRIOR TO 100,000 BPD LIFTINGS BEGINNING JULY 1. THIS OFFER ALSO TURNED DOWN BY GOK.

3. BAKER SAID GOK DISAPPOINTED BY EXXON DECISION BUT WILLING LEAVE DOOR OPEN ON ITS OFFER SELL CRUDE TO EXXON ON EXTENDED (THREE YEAR) BASIS UNDER PREVIOUSLY AGREED TERMS.

4. AS IT HAPPENED WHILE BAKER WAS AT EMBASSY, EMBOFF WAS DISCUSSING GOK CRUDE SALES WITH ALI KHALIFA AL-SABAH AT MINISTRY OF OIL. ALI KHALIFA TOLD EMBOFF (AND BAKER ALSO REPORTED TO US) THAT GOK CURRENTLY NEGOTIATING SUBSTANTIAL PURCHASES UNDER TERMS SIMILAR TO THOSE OFFERED EXXON FOR PERIODS OF SUBSTANTIAL DURATION WITH TWO OTHER LARGE AMERICAN COMPANIES (NOT MOBIL).

5. ALI KHALIFA TOLD EMBOFF, WHO HAD HEARD SAME FROM VISITING JOURNALIST, THAT GOK EXPECTS TO HAVE SOME 800,000 BPD SOLD BY END 1975, INCLUDING SHELL'S 400,000. ALI KHALIFA SAID GOK HAS BEEN RELATIVELY SUCCESSFUL BECAUSE CURRENTLY KUWAITI CRUDE IS PRETTY GOOD BUY FOR THE MONEY COMPARED TO HIGH PRICED LOW SULFUR CRUDES AND BECAUSE GOK HAS BEEN COMPLETELY COMMERCIAL IN ITS DEALINGS WITH COMPANIES. HE SAID GOK HAS CLAUSE IN ITS SALES CONTRACTS THAT WOULD COMPENSATE FOR DROP IN DOLLAR EXCHANGE RATES. THUS, CURRENT PRICE IS \$11.03 PER BARREL, BUT SINCE NO OTHER OPEC COUNTRY HAS THIS CLAUSE, GOK PRESENTLY FOREGOING WHAT IT ENTITLED UNDER CLAUSE SO THAT ACTUAL PRESENT PRICE IS \$10.74. (I.E. 93 PERCENT OF POSTED PRICE). ALI KHALIFA SAID COMPANIES APPRECIATE "BUSINESS-LIKE AND FAIR" MANNER GOK HANDLING DIRECT SALES.

6. COMMENT: GOK SEEMS PLEASED WITH WAY DIRECT CRUDE SALES GOING.  
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NOT CLEAR HOW ITS SALES WILL AFFECT GULF/BP. PRESENTLY GULF/BP ALLOWABLES BASED ON PRESUMED 2.5 MILLION BPD PRODUCTION, I.E. 1 MILLION BPD. THERE HAS BEEN SOME TALK OF REDUCING PRESUMED PRODUCTION FIGURE FOR KOC TO 2 MILLION BPD. KOC MANAGER SAID HE DID NOT KNOW WHETHER THIS WOULD IN FACT BE DONE OR WHETHER GULF/BP BUY BACK OF GOK SHARE WHICH PRESENTLY IS 700,000 BPD WOULD BE REDUCED IN LIGHT INCREASING LEVEL DIRECT SALES BY GOK. SOME MINISTRY OF OIL PEOPLE THINK GULF/BP WILL BE ALLOWED LIFT AS MUCH AS THEY

WANT AND THAT OVERALL PRODUCTION WILL BE ALLOWED RISE TO 2.5  
MILLION BPD, NOT COUNTING NEUTRAL ZONE. THERE IS, IN SHORT, SOME  
CONFUSION AMONG OIL PEOPLE HERE NOW ABOUT LIKELY KOC PRODUCTION  
LATER THIS YEAR. OUR OWN VIEW IS THAT GOK WILL ALLOW MARKET CON-  
DITIONS TO DICTATE OVERALL LEVEL FOR KOC AS LONG AS COMPANY PRODUC-  
TION REMAINS SOMEWHERE BETWEEN 1.8 AND 2.5 MILLION BPD. KOC MANAGER  
PREDICTS OVERALL 1975 DAILY AVERAGE OF 2.3 MILLION BPD AND THIS  
SEEMS TO US TO BE ABOUT AS GOOD A GUESS AS ANY THAT CAN BE MADE  
NOW.  
STOLTZFUS

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PETROLEUM, SALES, CREDIT  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 20 FEB 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** GolinoFR  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975KUWAIT00826  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D750060-0636  
**From:** KUWAIT  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1975/newtext/t19750228/aaaaayzo.tel  
**Line Count:** 125  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EB  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 75 KUWAIT 0705, 75 KUWAIT 0460  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** GolinoFR  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 22 APR 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <22 APR 2003 by ShawDG>; APPROVED <23 APR 2003 by GolinoFR>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
05 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** GOK CRUDE SALES; EXXON DEAL HITS SNAG  
**TAGS:** ENRG, KU, EXXON  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006